

CONFORMED COPY

LOAN NUMBER 4079 RO

Loan Agreement

(Bucharest Water Supply Project)

between

ROMANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 2, 1996

LOAN NUMBER 4079 RO

LOAN AGREEMENT

AGREEMENT, dated August 2, 1996, between ROMANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

(B) The Project will be carried out by Regia Generala de Apa Bucuresti (RGAB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to RGAB the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and RGAB;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Lei" means the currency of the Borrower;
- (b) "PCU" means the Project Coordination Unit referred to in Section 2.06 of the Project Agreement, established within RGAB;
- (c) "Project Agreement" means the agreement between the Bank and RGAB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (d) "RGAB" means Regia Generala de Apa Bucuresti, a local Regia Autonoma established by decision of the Bucharest Municipal Council No. 1198, dated December 10, 1990;
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (f) "STAP" means the Short-Term Action Program, agreed with the Bank, referred to in Section 6.01 (b) of this Agreement;
- (g) "Subsidiary Loan and Guarantee Agreement" means the agreement to be entered into among the Borrower, RGAB and the General Council of the Bucharest Municipality pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan and Guarantee Agreement; and
- (h) "Subsidiary Loan" means the loan provided under the Subsidiary Loan and Guarantee Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty five million dollars (\$25,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its obligation thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause RGAB to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to RGAB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to RGAB under a subsidiary loan and guarantee agreement to be entered into among the Borrower, RGAB and the General Council of the Bucharest

Municipality under terms and conditions which shall have been approved by the Bank, which shall include the following principal terms: (i) the principal amount of the Subsidiary Loan shall be repaid in lei in amounts equivalent (determined as of the date or respective dates of repayment, according to Schedule 3 to this Agreement) to the amounts withdrawn from the Loan Account or paid out of the Special Account on account of goods and services financed out of the proceeds of the Loan; (ii) the principal amount of the Subsidiary Loan shall be repaid over a period of no more than twenty (20) years, including a grace period of no more than five (5) years; and (iii) RGAB shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate applicable to the Loan pursuant to Section 2.05 of this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan and Guarantee Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan and Guarantee Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by RGAB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall or shall cause RGAB to:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall or shall cause RGAB to:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to

support the related withdrawals; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) RGAB shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that RGAB will be able to perform its obligations under the Project Agreement.

(c) The decision of the Bucharest Municipal Council No. 1198, dated December 10, 1990, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of RGAB to perform any of its obligations under the Project Agreement.

(d) The STAP shall have been amended, suspended, or repealed without the Bank's consent.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of RGAB or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (c), (d) and (e) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan and Guarantee Agreement has been executed on behalf of the Borrower, RGAB and the General Council of the Bucharest Municipality; and

(b) the Borrower has provided satisfactory evidence to the Bank that the STAP has been approved in accordance with the Borrower's law.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by RGAB, and is legally binding upon RGAB in accordance with its terms; and

(b) that the Subsidiary Loan and Guarantee Agreement has been duly authorized or ratified by the Borrower, RGAB and the General Council of the Bucharest Municipality and is legally binding upon the Borrower, RGAB and the General Council of the Bucharest Municipality in accordance with its terms.

Section 6.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
17, Apolodor Street
Bucharest
Romania

Telex:

11239

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ROMANIA

By /s/ Napoleon Pop

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Christiaan Poortman
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods	10,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expend- itures for other items procured locally
(2) Works	11,700,000	45%
(3) Consultants' Services	800,000	25%
(4) Unallocated	2,500,000	
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TOTAL	25,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods and works costing less than \$250,000 equivalent each; and (b) contracts costing less than \$100,000 equivalent each for the employment of consulting firms, and \$50,000 equivalent each for the employment of individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project (known, in the Borrower's territory, as "Modernizarea Sistemului de Alimentare cu Apa din Municipiul Bucuresti") are to: (i) improve the reliability and quality of water supply in Bucharest; (ii) contribute to the reduction of water losses (both physical and commercial); and (iii) strengthen RGAB's operational, customer account and financial management, and help it acquire expertise necessary for the preparation and implementation of future operations.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A. Improvement of Water Reliability and Quality

1. Carrying out of water treatment plant rehabilitation, including (i) the repair of filters and/or replacement of filtering equipment, and (ii) the installation of new chlorination and chemical treatment equipment.

2. Carrying out of aqueduct flow control improvement and reservoir upgrading, including the installation of (i) flow control valves, and (ii) flow meters.

3. Carrying out of pumping station rehabilitation, including (i) the purchase and installation of new high energy efficiency pumps, (ii) the rehabilitation of existing pumps, (iii) the replacement of electrical equipment, and (iv) the installation of control and metering equipment for several pumping stations.

Part B. Reduction of Water Losses

1. Carrying out of primary network repair, including (i) the replacement of deteriorated network sections, (ii) the survey, repair and/or replacement of valves, and (iii) the reconstitution of a minimum stock of spare parts.

2. Carrying out of secondary network repair, including the replacement of (i) deteriorated network sections, and (ii) house connections in several city neighborhoods.

3. Carrying out of a meter renewal program through the purchase, installation and/or replacement of meters of different sizes, for consumers including inter alia housing development authorities and commercial enterprises.

Part C. RGAB Institutional Strengthening

1. Conducting a public awareness campaign on the reduction of losses incurred by consumers, including the preparation and implementation of (i) a media campaign (press, radio, television) to sensitize the consumers on water conservation issues, and (ii) measures to provide incentives to consumers to reduce excessive water consumption.

2. Improvement of RGAB's commercial management system, including technical assistance to pursue the reorganization efforts initiated with technical assistance from other donors.

3. Training and other technical assistance to RGAB to develop management skills in the areas of (i) finance and accounting, (ii) human resources, and (iii) technical operations.

4. Implementation supervision, including consultants' services to assist the PCU in the management of Project execution.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars) ¹
March 15, 2002	535,000
September 15, 2002	550,000
March 15, 2003	570,000
September 15, 2003	585,000
March 15, 2004	600,000
September 15, 2004	620,000
March 15, 2005	635,000
September 15, 2005	655,000
March 15, 2006	675,000
September 15, 2006	690,000
March 15, 2007	710,000
September 15, 2007	735,000
March 15, 2008	755,000
September 15, 2008	775,000
March 15, 2009	795,000
September 15, 2009	820,000

March 15, 2010	845,000
September 15, 2010	870,000
March 15, 2011	895,000
September 15, 2011	920,000
March 15, 2012	945,000
September 15, 2012	970,000
March 15, 2013	1,000,000
September 15, 2013	1,030,000
March 15, 2014	1,060,000
September 15, 2014	1,090,000
March 15, 2015	1,120,000
September 15, 2015	1,150,000
March 15, 2016	1,185,000
September 15, 2016	1,215,000

1 The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) to (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of

each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

